Minister of Energy
and Infrastructure

Office of the Minister

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754
www.ontario.ca/MEI

Ministre de l'Énergie
et de l'Infrastructure

Bureau du ministre

4e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Téléc. : 416 327-6754
www.ontario.ca/MEI

Ontario

Office of the President and CEO
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Independent Electricity
System Operator

November 16, 2009

Mr. Paul Murphy
President and CEO
Independent Electricity System Operator
410–655 Bay Street
PO Box 1
Toronto ON M5G 2K4

Dear Mr. Murphy:

Thank you for forwarding a copy of the Independent Electricity System Operator's (IESO) proposed 2010–2012 Business Plan.

In reviewing your business plan, I note that the IESO's principal focus will continue to be the reliable operation of the electricity system. I believe this is appropriate. I am pleased to see that the IESO will maintain this focus while keeping its costs under control and that your 2010–2012 submission to the Ontario Energy Board (OEB) will include a commitment to hold your fee flat in 2010. This is consistent with the government's desire that all agencies strive to reduce costs to consumers and businesses in the current difficult economic environment.

I am also pleased that the IESO is taking steps to meet the demands expected to flow from the recently-launched Feed-in Tariff (FIT) program. This program is at the heart of the government's efforts to stimulate a new, green economy and create a new generation of green jobs while protecting our environment. We expect the FIT program to spark a surge in the development of renewable energy projects, and I am encouraged that the IESO has made it a priority to prepare for the incorporation of this additional generation into the electricity system and the new transmission capacity that will be needed to take the power to consumers. I ask that you maintain an intense focus on this work going forward.

.../cont'd

With respect to your role as the interim Smart Meter Entity, your work on the integration of local distribution companies (LDCs) onto the Meter Data Management Repository is a core element in the rollout of time-of-use pricing across the province. Please continue to work with the government and LDCs to ensure provincial targets are met.

This letter constitutes my approval to proceed to the OEB with the fees and revenue requirement related to your 2010–2012 Business Plan.

Sincerely,

Gerry Phillips
Minister

IESO Financial Update

Actual 2009 Financial Results (unaudited)

The following table outlines the IESO's 2009 actual results. As these figures are not yet audited, they are subject to change.

($ millions)	2009 Actual Unaudited	2009 Budget	Variance
Usage Fees	124.3	124.7	(0.4)
Market-related Interest Income	-	3.6	(3.6)
Cost Recovery for Service	1.5	2.0	(0.5)
Total Revenues	**125.8**	**130.3**	**(4.5)**
OM&A Program Costs	88.0	93.1	5.1
OM&A Pension Expense	9.9	12.0	2.1
Amortization	21.2	22.4	1.2
Net Interest	2.4	2.8	0.4
Total Costs	**121.5**	**130.3**	**8.8**
Operating Surplus/(Deficit)	**4.3**	-	**4.3**
Accumulated Operating Surplus (opening balance)	5.0	5.0	-
Rebates to Market Participants	**(4.3)**	-	**(4.3)**
Accumulated Operating Surplus (closing balance)	**5.0**	**5.0**	-

The initial filing (Exhibit B, Tab 1, Schedule 1, pages 10-11 and Exhibit B, Tab 3, Schedule 1) included projected 2009 results and included explanations for those projected variances. The following table details the variances from the actual 2009 results (unaudited) and the projected 2009 results included in the IESO 2010-2012 Business Plan.

($ millions)	2009 Actual Unaudited	2009 Projected in the 2010-2012 Business Plan	Variance
Usage Fees	124.3	122.8	1.5
Cost Recovery for Service	1.5	1.7	(0.2)
Total Revenues	**125.8**	**124.5**	**1.3**
OM&A Program Costs	88.0	90.5	2.5
OM&A Pension Expense	9.9	10.8	0.9
Amortization	21.2	20.9	(0.3)
Net Interest	2.4	2.6	0.2
Total Costs	**121.5**	**124.8**	**3.3**
Operating Surplus/(Deficit)	**4.3**	**(0.3)**	**4.6**
Accumulated Operating Surplus (opening balance)	5.0	5.0	-
Rebates to Market Participants	**(4.3)**	**-**	**(4.3)**
Accumulated Operating Surplus (closing balance)	**5.0**	**4.7**	**0.3**

Revenues from cost recovery for service, amortization and net interest expense were largely consistent with the 2009 projected results in the IESO 2010-2012 Business Plan.

Usage Fees

Actual usage fee revenues for 2009 are $124.3 million, approximately $1.5 million higher than the 2009 projection included in the 2010-2012 Business Plan. The positive variance was the result of higher than forecast exports partially offset by lower than forecast domestic demand. The following table details the variance in terawatt hours (TWh).

TWh	2009 Actual Unaudited	2009 Projected in the 2010-2012 Business Plan	Variance
Ontario Demand (net of line losses)	136.1	137.3	(1.2)
Exports	15.1	12.1	3.0
Total	**151.2**	**149.4**	**1.8**

OM&A Program Costs

($ millions)	2009 Actual Unaudited	2009 Projected in the 2010-2012 Business Plan	Variance
Staff Costs	62.0	62.8	0.8
Computer Support, Maintenance & Equipment	9.3	9.2	(0.1)
Contract Service & Consultants	6.5	7.8	1.3
Administration	7.3	7.5	0.2
Telecommunications	2.9	3.2	0.3
Total OM&A Program Costs	**88.0**	**90.5**	**2.5**

OM&A program costs related to computer support, maintenance & equipment; administration and telecommunications were largely consistent with the 2009 projections included in the 2010-2012 Business Plan. Contract services and consultants were $1.3 million below the projected cost level as a result of: lower than expected costs on initiatives; work being completed internally; initiatives which were deferred until 2010 or cancelled.

Forecast staff costs were lower than projected by $0.8 million primarily due to staff vacancies and lower spending associated with staff expenses and training.

OM&A Pension Expense

($ millions)	2009 Actual Unaudited	2009 Projected in the 2010-2012 Business Plan	Variance
Pension Costs	12.5	12.5	-
Capitalized Pension	(0.6)	(0.5)	0.1
SERP Investment Income	(2.0)	(1.2)	0.8
OM&A Pension Expense (net)	**9.9**	**10.8**	**0.9**

OM&A pension expense was $0.9 million lower than the 2009 projection largely as a result of higher than expected income on the SERP investment. The actual returns on the investment in 2009 were approximately 13.7%.

2010 Financial Outlook

The following table details the IESO's current projected 2010 financial results against the budget included in the 2010-2012 Business Plan.

($ millions)	2010 Projection	2010 Budget	Projected Variance
Usage Fees	124.2	122.8	1.4
Cost Recovery for Service	2.0	2.0	-
Total Revenues	**126.2**	**124.8**	**1.4**
OM&A Program Costs	91.3	91.5	0.2
OM&A Pension Expense	13.9	11.3	(2.6)
Amortization	20.3	21.0	0.7
Net Interest	1.0	1.0	-
Total Costs	**126.5**	**124.8**	**(1.7)**
Operating Surplus/(Deficit)	**(0.3)**	**-**	**(0.3)**
Accumulated Operating Surplus (opening balance)	5.0	4.7	0.3
Accumulated Operating Surplus (closing balance)	**4.7**	**4.7**	**-**

Usage Fees

Projected usage fee revenues for 2010 are $124.2 million, approximately $1.4 million higher than budget. This variance is a result of a reduced projection in Ontario energy demand in 2010 of 1.4 TWh, offset by increased exports of 3.1 TWh. The following table details the most recent energy volume forecast/assumption for 2009.

TWh	2010 Projection	2010 Budget	Projected Variance
Ontario Demand (net of line losses)	138.0	139.4	(1.4)
Exports	13.1	10.0	3.1
Total	**151.1**	**149.4**	**1.7**

OM&A Program Costs

The revised outlook for OM&A program costs is $93.1 million or some $0.2 million below the 2010 budget. This change reflects: $0.7 million in estimated savings due to strengthening of the Canadian dollar relative to the U.S. dollar (budget assumed an exchange rate of 0.85 versus outlook assumption of 0.95); $0.6 million in compensation savings as a result of management compensation restraints and the result of recent collective agreements with two of the IESO unions(Society and Power Workers' Union); partially offset by $1.1 million higher other post employment benefit expense as a result of a lower than assumed discount rate (actual rate on the measurement date of September 30, 2009 was 5.8% versus a business plan assumption of 6.4%).

OM&A Pension Expense

OM&A pension expense for 2010 is now projected to total $13.9 million, some $2.6 million higher than the budget of $11.3 million. This increase is the result of: the higher discount rate, as discussed above; partially offset by higher employee contributions from recent collective agreements with the Society as well as positive investment returns.

Operating Deficit

The IESO is projecting an operating deficit of $0.3 million at this time. As in prior years, IESO management will look for opportunities throughout the year to reduce spending while not presenting any increase in operating risks. As well, IESO management recognizes the inherent uncertainty of budgets and forecasts and the possibility that energy volumes will not be as projected, particularly in respect of exports. The projected 2010 deficit of $0.3 million is well within the $5.0 million deferral balance at the beginning of 2010.